

~~CONFIDENTIAL~~ UNCLASSIFIED

Class. CHANGED TO: TS S 0
OFFICE OF REPORTS AND ESTIMATES

TRANSPORTATION GROUP DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 2 Mar 78 By: 028

10 August 1948

Weekly Intelligence Summary No. 24.

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

A Communist air network in the Far East linking Bangkok, the reported centre of the Kremlin's Southeast Asia penetration, with the USSR and with troubled areas to the South, appears to be in process of organization.

The prospects of successful conclusion of a US-Mexican bilateral civil aviation agreement have been enhanced by Mexico's apparent abandonment of its previous insistence upon a regulated division of traffic between US and Mexican airlines. Agreement now appears to have been reached on all major points of difference except the respective route patterns. Successful resolution of the route question depends upon a compromise formula which will provide adequate rights for US carriers in Mexico, while still appearing to grant reasonable reciprocity and protection to Mexican interests.

A ranking German rail authority has criticized the recent BICO-German agreement to use \$59,000,000 of ECA funds for the construction of new railway cars for the Bizone. He contends that a major repair program, instead of new car construction, would effect savings both in steel and manpower.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

US export restrictions are paradoxically affecting the shipment of railway equipment purchased in the US by the Chinese Government at the same time that the Stillman Mission is requesting ECA funds for use in the rehabilitation of Chinese railways.

The USSR continues to dominate the course of the Danube Conference at Belgrade. While the Soviet "take it or leave it" attitude has been somewhat softened in view of the advantages to be gained by modification of their original position, there is no doubt that the ultimate outcome is completely under Soviet control and that major objectives of the West have little hope of realization.

~~CONFIDENTIAL~~

CONFIDENTIAL**SECTION II. CURRENT DEVELOPMENTS**

50X1

A Communist air network in the Far East linking Bangkok, the reported centre of the Kremlin's Southeast Asia penetration, with the USSR and with troubled areas to the South, appears to be in process of organization. Nine surplus PBVs (Catalinas) were recently sold by The Royal Australian Air Force to Asian Airlines Pty. Ltd., the leading director of which is Clarence Hart Campbell, a prominent Australian Communist. While Asian Airlines is capitalized in Australia, it still has no permission from the Australian Department of Civil Aviation to operate a route or to register the aircraft. Campbell, however, is reported to have been assured by a Leftist member of the Federal Cabinet that the way would be paved for Asian Airlines to operate.

There may be some connection between Campbell's operations and two recent unauthorized landings of PBVs near Bangkok. Cobley, the pilot, also an Australian, is reported to have been involved in extensive smuggling operations from Indonesia to Siam, and to have brought in eight cases of stolen gold on his first flight.

The projected routes of Asian Airlines have been described by a Dutch source as including not only Sydney, Port Darwin, Jogjakarta, Singapore, Bangkok, and Bombay, but also actual Soviet territories. While many of the reports bearing on the above operations may not be correct, there is sufficient confirmed data to establish the general objectives of Campbell's enterprise. The loading of the Asian Airline Board of Directors with Chinese citizens, and the substantial Chinese stock ownership of the company strongly suggest that operations will concentrate on the areas of Southeast Asia in which Chinese participation in trading activities is dominant.

It is not clear by what route Campbell would undertake to establish connections with Soviet territory. He is believed, however, to be planning a test flight to Tokyo, and the use of amphibian aircraft would open the possibility of flying around the Chinese coast, into areas controlled by Chinese Communists. The accomplishment of such a plan would probably dictate covert operations, because Asian Airlines otherwise would be obliged to fly under the aegis of the Australian Government and subject to the terms of Australia's air agreements with other countries.

In any case, Asian Airlines threatens to provide valuable liaison, distribution of propaganda and arms, and an otherwise valuable tool for Communist elements in the centres of disaffection of Southeast Asia.

CONFIDENTIAL

CONFIDENTIAL

50X1

The prospects of successful conclusion of a US-Mexican bilateral civil aviation agreement have been enhanced by Mexico's apparent abandonment, in current negotiations, of its previous insistence upon a regulated division of traffic between US and Mexican airlines. (See Transportation Group Weekly Summary, 13 July). Agreement now appears to have been reached on all major points of difference except the respective route patterns. Mexico has not yet withdrawn its demands for monopoly rights over certain routes and its insistence that only one US airline operate on any given route. The Mexicans have also refused to grant certain non-stop privileges sought by the US.

The Mexican position reflects not only fear of US technical superiority, against which Mexican airlines believe they cannot economically compete, but also the extreme sensitivity of the Mexican Government to nationalistic domestic criticism. Successful resolution of the route question therefore continues to depend upon a compromise formula which will provide adequate rights for US carriers in Mexico, while still appearing to grant reasonable reciprocity and protection to Mexican interests.

The recent BICO-German agreement to allocate \$59,000,000 of BGA funds for the purchase outside Germany of 16,000-17,000 new freight cars for the Bizone during the fiscal year 1948-49 has been criticized by a ranking German transportation authority.

The Director of Bizonal Transport Administration (German), in an interview with the Office of the US Political Advisor in Frankfurt, admitted the critical need for more rolling stock, but pointed out that new car construction would take steel away from the present car repair program and argued that such steel would be used to better advantage in effecting major repairs on existing repairable cars. The official further contended that new construction is four times as costly in manpower.

The foregoing German dissent to the BICO-German agreement undoubtedly reflects the fact that the BICO program would in no case eliminate the German car shortage. Including the 3,000 new cars to be built in Bizone by the end of January 1949, and the 20,000 cars to be added to the Park through internal repair during the fiscal 1948-49 period, there will still be a maximum deficit of 28,000 cars. The proposed new car construction program will reduce this deficit to 11,000 cars. If, however, adequate steel were made available for a major expanded repair program, this deficit might be substantially overcome.

CONFIDENTIAL

CONFIDENTIAL

The criticism of the proposed construction program originates from a purely internal German viewpoint. ECA, on the other hand, will have to evaluate the problem from the viewpoint of choosing the program contributing most to the recovery of Europe as a whole.

50X1

A paradoxical situation with respect to Chinese railway rehabilitation has been revealed by an appeal from the Chinese Foreign Office to the US Embassy in Nanking. Although the Stillman Mission is requesting the use of ECA funds for the reconstruction of railways in China, US export restrictions are hampering delivery of a considerable amount of railway equipment purchased with Chinese assets in the US.

The Foreign Office note states that the Chinese Government has approved the purchase of over 6,000 tons of railway equipment for Chinese railways, and that wheels amounting to 1,778 tons have actually been purchased in the US and presently await shipment. However, US approval for export has thus far been granted for only 500 tons of wheels. The Foreign Office asserts this amount falls far short of their critical needs.

The second week of the Danube Conference witnesses a continuation of Soviet domination. The "take it or leave it" Soviet attitude, however, evidenced at the opening of the Conference, appears somewhat softened. The USSR, apparently sensing the imminent danger of a Western withdrawal from the Conference, is now avoiding provocation of the Western powers (US-UK-France), which might accelerate such withdrawal. Ambassador Cannon, Chief of the US Delegation, believes therefore, that the Conference may continue as long as two weeks more.

The tempering of the original Soviet stand may evidence a desire to simulate the patient attitude which the West has taken toward the USSR in the UN and elsewhere. The USSR also seems to realize now that it can afford a generous attitude in view of the safe 7 to 3 voting majority which enables it to dictate final Conference decisions whenever it desires. An additional factor encouraging the USSR to adopt a more conciliatory attitude is the major importance to the USSR of gaining entry into the US-controlled sector of the Danube above Mauthausen. Furthermore, the USSR desires to have the concurrence of as many interested countries as possible in order to maximize the legality of any convention which the Conference may adopt.

CONFIDENTIAL

~~CONFIDENTIAL~~

While there is no reason to anticipate that the Western amendments will be adopted in Committee, their introduction in lieu of outright withdrawal will afford the West the possibility for arguing its case before the Convention and thus forestalling an inevitable Soviet contention that the West has refused to take part in an international conference in which the will of the majority was unacceptable. The course of the Working Committee's deliberations may now witness Vishinsky accepting minor points from the Western amendments for incorporation into the Soviet draft. In spite of the formal wording of the future Danube Convention, however, it will certainly provide a domination of the future Commission by Soviet and Satellite members. This fact, coupled with the actual Soviet physical control of the lower Danube to its mouth, will certainly enable the USSR to maintain its present hold on Danube shipping.

~~CONFIDENTIAL~~